

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 SEC-01 /120 W
-----070727 211447Z /41

R 211130Z MAR 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 5963
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 2 BERN 1300

USMTN ALSO FOR MISSION

USOECN ALSO FOR EMBASSY

PASS TREAS AND FRB

EO 11652: NA
TAGS: EFIN SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK MAR 12-18

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC FELL
ABRUPTLY TO SF 1.88 IN NERVOUS MARKET. GOLD PRICE
FELL TO \$183 PER OUNCE. STOCK PRICE ROSE SLIGHTLY
AS INTEREST RATES DECLINED. SWISS NATL BANK PRES
LEUTWILER SAID IT WOULD BE MONTHS BEFORE CAPITAL
IMPORT RESTRICTIONS WERE LIFTED. SWISS GOVT ISSUED
ECONOMIC STATEMENT ON DIRECTION POLICY WILL TAKE UP
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TO 1979 PARLIAMENTARY ELECTIONS. NEUE ZUERCHER
ZEITUNG REPORTED NEW US FRB CHAIRMAN PLACED PRIORITY
ON ANTI-INFLATION; REPORTED US TREAS ASST SECY BERNSTEN BRIEFING
FOR FOREIGN PRESS ON US FOREX POLICY. END SUMMARY.

2. FOREX AND GOLD:

A) DOLLAR RATE AGAINST SF FELL ABRUPTLY IN EARLY WEEK AFTER INITIAL INCREASE FOLLOWING US-WEST GERMAN ANNOUNCEMENT OF MEASURES TO SUPPORT DOLLAR. SWISS OFFICIALS WELCOMES MEASURES AS IMPORTANT STEP TO BOOST DOLLAR AND CALM MARKET. DEALERS WERE SKEPTICAL MEASURES WOULD BE EFFECTIVE. BELIEVED SWISS MEASURES ALSO INEFFECTIVE; DOLLAR WILL DECLINE AFTER TEMPORARY PSYCHOLOGICAL AFFECT WEARS OFF. SAID JAPANESE MEASURES TO RELIEVE PRESSURE ON YEN WERE MERE GESTURE. NOTED INTL POLITICAL DEVELOPMENTS OFFSET REPORT OF US COAL STRIKE SETTLEMENT. SAID DOLLAR WAS ADVERSELY AFFECTED BY US FRB CHAIRMAN'S SENATE STATEMENT THAT US INFLATION COULD WORSE. SNB AND OTHER CENTRAL BANK INTERVENTIONS HALTED DOLLAR DECLINE LATE THURS. SNB FOREX HOLDINGS ROSE SF 255.4 MILLION IN WEEK ENDING MAR 15.

B) DEALERS SAID ABRUPT GOLD PRICE FALL TO \$183 PER OUNCE WED FOLLOWED NEW YORK MARKET TREND; KILOGRAM PRICE SLIPPED SF 480 TO SF 11,150. SAID PREVAILING INTL POLITICAL AND ECONOMIC CONDITIONS INDICATED DEMAND SHOULD GROW. SUGGESTED SPECULATIVE OPERATIONS CAUSED PRICE FALL. BELIEVE PRICE CONSOLIDATION PHASE AT HAND. NOTED US FRB CHAIRMAN DID NOT RULE OUT EVENTUAL GOLD SALES TO HELP SUPPORT DOLLAR. CREDIT SUISSE REPORTED 1977 WORLD GOLD SALES REACHED 1,600 TONS, 10 PERCENT ABOVE 1976 AND HIGHEST LEVEL SINCE UNCLASSIFIED

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1968, DUE TO INCREASED SALES FROM EAST EUROPE AND FROM MONETARY RESERVES. INCREASE WAS EASILY ABSORBED BY MARKET DUE TO HIGHER INDUSTRIAL AND PRIVATE DEMAND; SOME 400 TONS WENT TO OPEC COUNTRIES AND 300 TONS TO US. RATES FOLLOW:

ITEM - 3/13 (OPEN) - 3/17 (CLOSE)
SPOT DOLLAR - 1.98 - 1.8780
FORWARD DISCOUNTS (PCT PER ANNUM)
1 MONTH - 6.83 - 7.48
2 MONTHS - 6.56 - 7.00
3 MONTHS - 6.51 - 6.90
6 MONTHS - 6.59 - 6.82
12 MONTHS - 6.05 - 6.34
SF/DM - 94.64 - 92.14
GOLD - 185.50 - 183.00

3. CAPITAL AND MONEY MARKET:

A) STOCK PRICES ROSE THROUGH WED THEN DECLINED SLIGHTUPIWHEAVY TURNOVER. SKA SHARE INDEX ROSE 2.6 PCT TO 242.3, STILL 10 PCT BELOW END FEB.

BROKERS SAID PRICE RISE WAS TECHNICAL REACTION
INVOLVING COVERING PURCHASES IN OVER-SOLD MARKET.
THEY EXPECT TURNOVER TO SLACKEN WITH FURTHER PRICE
LOSSES, THOUGH INCREASING MARKET LIQUIDITY COULD
HELP BOOST DEMAND FOR SHARES.

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USMTN ALSO FOR MISSION

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B) BOND PRICES ROESE SLIGHTLY, BRINGING YIELDS
DOWN. AVERAGE YIELD CONFEDERATION BONDS SLIPPED
TO 3.54. ZURICH CITY LOAN OF SF 60 MILLION AT 3
PCT INTEREST WAS SOLD AT 99 PCT OF PAR. SECOND
QTR 1978 PUBLIC LOAN EMISSION CALENDAR PROVIDES
FOR TOTAL SF 1.6 BILLION IN NEW MONEY, COMPARED SF
1.1 BILLION IN SECOND QTR 1977, AND SF 1 BILLION
TO REFINANCE OLD LOANS, COMPARED 0.5 BILLION LAST
YEAR. SOME SF 460 MILLION IN NEW STOCK ISSUES WAS ALSO
AUTHORIZED. HOWEVER, MARKET IS EXPECTED TO REMAIN HIGHLY LIQUID.

C) SNB REPORTED DOMESTIC CREDIT IN FOURTH
QTR 1977 WAS 3.3 PCT ABOVE THIRD QTR BUT

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3 PCT BELOW FOURTH QTR 1976. LOANS TO FOREIGNERS WERE UP 65 PCT FROM THIRD QTR AND 41 PCT ABOVE FOURTH QTR 1976. NEW CONSTRUCTION LOANS WERE UP 29 PCT IN JAN ON ANNUAL BASIS.

D) BANKS LOWERED PRIVATE INTER-BANK DEPOSIT RATE ON BANKERS ACCEPTANCES AND BILLS OF EXCHANGE FROM 3.75 TO 3.25 EFFECTIVE MAR 20. SPECIAL DISCOUNT RATE ON CERTIFICATES OF OBLIGATORY RESERVE STOCKS WERE LOWERED 0.25 TO 1.25 PCT ON FOOD AND FEED RESERVES, AND TO 1.5 PCT FOR OTHER RESERVE STOCKS.

4. SNB VIEWS: SNB PRES LEUTWILER SAID HE DID NOT EXPECT WEST GERMANY TO INTRODUCE CAPITAL IMPORT MEASURES LIKE SWITZERLAND BECAUSE SF HAD APPRECIATED AGAINST DM. MORE THAN SF 3 BILLION HELD BY FOREIGN CENTRAL BANKS WOULD BE AFFECTED BY NEGATIVE INTEREST RATE. ALTHOUGH NON-RESIDENT HOLDERS OF SF ACCOUNTS COULD SHIFT THESE TO NON-SWISS BANKS OUTSIDE SWITZERLAND, SNB CEILING ON FORWARD SF SALES LIMITED VOLUME OF SUCH TRANSACTIONS AND MAJOR TRANSFER FROM SWISS BANKS TO LUXEMBOURG OR LONDON WOULD DEPRESS EURO-FRANC INTEREST RATES. SAID THERE WAS NO INDICATION OF SF BANKNOTE HOARDING BY NON-RESIDENTS. BELIEVED TWO-TIER FOREX MARKET WOULD FUNCTION ONLY IN WEAK CURRENCY COUNTRY WHERE DIFFERENCE BETWEEN FINANCIAL AND COMMERCIAL RATES DID NOT EXCEED 5 PCT. SAID BAN ON NON-RESIDENT INVESTMENTS WOULD BE FIRST TO BE LIFTED, BUT ONLY AFTER SEVERAL MONTHS.

5. POLICY: GOVT STATED ITS ECONOMIC POLICY UNTIL FALL 1979 ELECTIONS WILL GIVE PRIORITY TO HOLDING INFLATION AND UNEMPLOYMENT RATES DOWN WHILE MOVING

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AHEAD ON PROBLEMS OF BALANCING FEDERAL BUDGET, DEFINING DIVISION OF RESPONSIBILITIES WITH CANTONS, AUGMENTING SNB POLICY TOOLS, PROMOTING EXPORTS, BOLSTERING FARM INCOMES AND REVISING SOCIAL SECURITY INSURANCE. FED MILITARY PROCUREMENT CHIEF SAID DEFENSE PROCUREMENT SHOULD INCREASE TO HELP STIMULATE SLUGGISH ECONOMY, ESPECIALLY BY DEVELOPING NEW TECHNOLOGY. GOVT REQUESTED PARLIAMENT APPROVE 1978 DEFENSE PROCUREMENT PROGRAM OF SF 723 MILLION, OF WHICH 64 PCT TO BE PURCHASED ABROAD.

SAID 73 PCT SWISS DEFENSE NEEDS WILL IN FUTURE BE PURCHASED DOMESTICALLY.

6. PRESS

A) PRESS REPORTED SENATE HEARING STATEMENTS ON US FRB CHAIRMAN MILLER THAT FALLING DOLLAR EXCHANGE RATE HAS ADVERSE EFFECT ON US INFLATION RATE WHICH COULD BECOME SERIOUS. NZZ MAR 18 SAID MILLER APPEARS TO BE FOLLOWING POLICY OF BURNS BY GIVING PRIORITY TO ANTI-INFLATION POLICY, URGENT ENERGY MEASURES AND DOLLAR SUPPORT. NOTED NEED FOR CLOSE FED COOPERATION WITH TREAS BECAUSE OF \$60 MILLION FY 1979 BUDGET DEFICIT. SAID FED CHAIRMAN SECOND MOST POWERFUL PERSON IN US AFTER PRESIDENT.

B) NZZ MAR 13 REPORTED US ASST TREAS SECY BERGSTEN BRIEFED FOREIGN PRESS ON US FOREX POLICY. EXPLAINED THAT TREAS OPPOSES SELLING USG SECURITIES ABROAD FOR FOREX TO SUPPORT DOLLAR, BUT FORMER FRB CHAIRMAN BURNS PRESENTED THAT PROPOSAL TO FOREIGN CENTRAL BANKERS WITHOUT CONSULTING TREAS. WARNER

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Message Attributes

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